

Appendix

C.

SPECIAL ASSESSMENT

7

Like Chapter 2, General Fixed Assets, this Chapter is the result of cooperative effort by the County Auditors Association and the California Committee on Municipal Accounting. The text of the approved Joint Committee Report has been incorporated into this Manual without modification, except for assignment of Chapter and section numbers.

JOINT COMMITTEE ON SPECIAL ASSESSMENT ACCOUNTING

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DIVISION IV

Chapter 11 - Special Assessment Accounting

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CHAPTER 11 - SPECIAL ASSESSMENT ACCOUNTING

Part 1 - Improvement and Bonding Acts

- 11.1 Introduction. Authorization to finance public improvements by special assessments against the properties benefited is found in the California Streets and Highways Code. These Acts have been used in the installation of sidewalks, street lighting, curbs and gutters, water mains, paving, grading, sewers and storm drains, for acquisition of rights of way, and other purposes. Acts most frequently used are the Improvement Act of 1911 (sections 5000-6794)* and the Municipal Improvement Act of 1913 (sections 10000-10609)*. Other Acts, more limited in scope, are available for street opening, street improvement and vehicle parking purposes. (See section 13)

The improvement and bonding Acts are available to cities and counties. However, they may be used by special districts only if authorized in the law governing the organization of the district. Some variations in General Law districts are illustrated in the following table.

<u>Type of District</u>	<u>Impr Act of 1911</u>	<u>Municipal Impr Act of 1913</u>	<u>Impr Bond Act of 1915</u>	<u>Street Op- ening Act of 1903</u>	<u>Street Impr Act of 1913</u>
Community service	x	x	x	x	x
County water	x	x	x	x	
County waterworks	x				
County sewerage	x		x	x	
Municipal water	x				
Sanitary	x		x	x	x
Water conservation	x	x	x	x	
Airport, Bridge & highway, Highway lighting, Parking, Police & fire protection, Harbor, etc.			N o n e		

Districts created by special acts show similar variation. For example, of eleven flood control districts studied, three may use the 1911 Act, three may use the 1915 Act and only one may use the 1913 Act.

Special assessment transactions are an important phase of local government and should be included in any representation of an agency's financial picture. Although the assessment acts set forth procedural steps which must be rigidly adhered to, they are almost

*Including any 1963 legislative changes.

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silent with respect to the proper accounting and reporting of the financial transactions involved. This silence has led to confusion as to what fiscal controls should be used by local agencies to assure that legally-recoverable costs are included in assessments, and that payment of bond interest and redemptions are properly accounted for by the treasurer or other designated official.

Each governmental agency has, because of its size or political structure, problems peculiar to that agency. These recommendations are considered an adequate guide suitable for use by any agency in devising its own accounting procedures. Such procedures should provide assurance that adequate fiscal controls are maintained from the time that the first work is begun in forming a special assessment district through the time the last special assessment bond is retired.

In order to design accounting procedures, it has been necessary to refer to, and make inferences from, certain sections of the Streets and Highways Code. Although the usage made of the law is believed proper, this Report is not to be taken as an authority for legal interpretation. The local agency should rely on legal counsel in any specific application of the Acts.

11.2 General recommendations. Coordination of accounting activities and proper reporting of financial transactions are essential if proper accounting controls are to be maintained. It is therefore recommended that each agency having special assessment proceedings and bonds as defined herein:

1. Designate the chief accounting officer to coordinate all activities involved in the accounting for special assessment activities.
2. Report financial transactions involving special assessment activities in its local financial statements.

11.3 Relationship of improvement and bonding acts. As above mentioned, the principal improvement acts are those of 1911 and 1913. The former also provides a procedure for the issuance of bonds; the latter does not. A third act, the Improvement Bond Act of 1915 (sections 8500-8851) provides for the issuance of bonds, but is not a procedural act. Thus, there are two improvement acts, either of which may be used with either of two bonding acts. The four possible combinations are:

<u>Procedural Act</u>	<u>Bonding Act</u>
Improvement Act of 1911	- Improvement Act of 1911
Improvement Act of 1911	- Improvement Bond Act of 1915
Municipal Improvement Act of 1913	- Improvement Act of 1911
Municipal Improvement Act of 1913	- Improvement Bond Act of 1915

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The accounting guides set forth in this report have been specifically designed for the above acts and therefore may not be applicable to proceedings when other statutes are used. Titles of local agency officials, such as "Clerk", "Treasurer", "Street Superintendent", are used as they appear in the State Codes. These titles vary for different types of agencies.

11.4 Improvement act procedure. Following are brief descriptions of steps taken under the two major improvement acts:

1911 Act

1. Legislative body passes resolution announcing its intent to construct a public improvement.
2. Notice is given to property owners affected and a hearing held.
3. If approved, public bids are called and a contract let for the construction.
4. Upon completion of the project, the cost is tentatively apportioned among property owners.
5. Another hearing is held at which property owners may protest the assessment and/or request a change in amount.
6. Legislative body affirms the assessment, at which time a lien attaches to each piece of property.
7. Contractor is given assessment roll, assessment diagram and assessment warrant**.
8. Contractor or street superintendent, as designated, then collects assessment from each property owner. Owners have 30 days in which to pay assessments.
9. Bonds* representing unpaid assessments are issued and delivered to the contractor.

1913 Act

1. Assessment and assessment diagram prepared before beginning work, the assessment against each property based on engineer's estimate.
2. Hearing is called by legislative body; notices mailed to affected property owners. A single hearing considers both the project and the assessment amounts.
3. If approved, the legislative body confirms the assessment, thereby creating a lien against the property.
4. Property owners have 30 days in which to pay assessments in cash.
5. Bonds* representing unpaid assessments are sold by the legislative body.
6. Contractor proceeds with the work, receiving progress payments from the local government.

*If these bonds are acquired by the governmental agency, they are treated as an investment.

**The assessment warrant, along with the roll and diagram, is the instrument giving the contractor the right to collect assessments.

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- 11.5 Bond characteristics. In the table below, 1911 Act bonds are contrasted with 1915 Act bonds:

	<u>1911 Act Bonds</u>	<u>1915 Act Bonds</u>
What individual bond represents	Each bond represents a specific unpaid assessment.	Each bond is one of a group of serial bonds, the total of which represents the total unpaid assessments.
Amount of the bond	Exact amount of unpaid assessment represented.	The denominations selected.
Method of collection	Assessment installments.	With property taxes.
Collecting agent	Treasurer of local agency.	Tax collector of local agency.
Security for bond	The specific piece of property described in the bond.	The "Redemption Fund", consisting of principal and interest installments.
Callable features	Assessment may be paid in full by property owner at any time, which is in effect a call of the bond.	May be called by treasurer for payment on second day of January or July of any year.
Security for Redemption Fund	None	Liens on all property on which assessments have not been paid.
Liability of local agency in event of delinquency	None	Required to make up shortage in Redemption Fund.*
Remedy of bondholder in event of delinquency	May foreclose his lien against specific property designated as security.	None necessary - local agency guarantees payment.
Remedy of local agency in event of delinquency	None necessary - bondholder's action is against assessed property.	Foreclosure of liens against delinquent properties, forcing their sale.

*In the event that a delinquency by one or more property owners creates a shortage in the Redemption Fund, the agency must advance annually amounts from its general fund or from subsequent ad valorem tax levies, in either event not to exceed 10 cents per \$100 of assessed valuation throughout its entire jurisdiction.

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Part 2 - Incidental Expenses

A. Improvement Act of 1911

11.6 Expenses included. Incidental expenses incurred in connection with an improvement under the 1911 Act are reimburseable to the jurisdiction advancing their cost. These are stated in section 5024, Streets and Highways Code:

- "(a) The compensation of the engineer for work done by him, and attorney's fees for services in proceedings pursuant to this division;
- (b) The cost of printing and advertising provided for in this division including the treasurer's estimated cost of printing, servicing and collecting any bonds to be issued to represent or be secured by unpaid assessments;
- (c) The compensation of the person appointed by the superintendent of streets to take charge of and superintend any of the works;
- (d) The expenses of making the assessment, and of the collection of assessments by the superintendent of streets when directed by ordinance to receive payments pursuant to Section 5396 of this division, and of preparing and typing the resolutions, notices and other papers and proceedings for any work authorized by this division;
- (e) The expenses of making any analysis and tests to determine that the work and any materials or appliances incorporated therein comply with the specification;
- (f) All costs and expenses incurred in carrying out the investigations and making the reports required by the provisions of the 'Special Assessment Investigation, Limitation and Majority Protest Act of 1931';
- (g) The cost of title searching, description writing, salaries of right of way agent appraisal fees, partial reconveyance fees, surveys and sketches incident to securing rights of way for any work authorized by this division;
- (h) Any other expenses incidental to the construction, completion, and inspection of the work in the manner provided for in this division;
- (i) The cost of relocating or altering any public utility facilities as required by the improvement in those cases where such cost is a legal obligation of the city; and
- (j) In a county having a population of 4,000,000 or over, the cost of purchasing plans prepared by a registered civil engineer engaged by owners."

The above section is construed to include:

Feasibility studies and surveys	Publishing resolutions:
Preparation of petitions	Determining need
Preparation of plans and specifications	Of intention
Costs of maps and assessment diagrams	Ordering improvement
Posting of notices	Determining wage rates
Publishing notices:	Confirming proceedings
Hearings	Confirming assessment
Invitations to bid	Preparation of contracts
	Inspection of work performed
	Clerical costs
	Treasurer's costs

General overhead on the above

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11.7 Cost summary and check list. Following is a cost summary and check list designed to insure that substantial costs are not overlooked. It also serves as a work order and a form on which to accumulate total incidental costs attributable to each project. The form has nothing to do with the method by which costs are accumulated, which may range from "memo" records to cost accounts which are fully integrated with the financial records.

Although the title of the "SUMMARY" specifies 1911 Act Improvements, the form is regarded as a master guide for collecting incidental costs under any improvement Act. This is feasible because the range of incidental costs allowable under the 1911 Act encompasses the allowable costs under any other Act, although the sequence of the steps may vary. Certain items appearing on the "SUMMARY AND CHECK LIST" are further explained in sections 11.8 through 11.12. Subpart B, section 11.13, discusses its application to other Acts.

SUMMARY OF INCIDENTAL COSTS
AND
CHECK LIST FOR 1911 ACT IMPROVEMENTS

Page 1 of 4

Assessment District No. _____

Work Order No. _____

Number of Parcels _____

PROJECT DESCRIPTION: _____

Date Started _____ Date Completed _____ Total Cost \$ _____

Step	Usual Responsible Party or Official	Procedure	Com- pletion Date	Resolution or Reference Number	Cost
1	Property Owners*	Request for improvement	_____		
2	Street Supt. or Finance Officer.	Assign assessment &/or work order #	_____	_____	
3	Street Superintendent	Feasibility study and survey	_____		\$ _____

*May be initiated by governmental unit.

SPECIAL ASSESSMENT ACCOUNTING

SUMMARY OF INCIDENTAL COSTS AND
CHECK LIST FOR 1911 ACT IMPROVEMENTS (Continued)
 Page 2 of 4

<u>Step</u>	<u>Usual Responsible Party or Official</u>	<u>P r o c é d u r e</u>	<u>Com- pletion Date</u>	<u>Resolution or Reference Number</u>	<u>C o s</u>
		Prepare petition to be circulated by property owners	_____		\$ _____
4	Property Owners	Return of petition	_____		
5	Engineer	Prepare construction plans	_____	_____	\$ _____
		Prepare maps of district	_____	_____	\$ _____
		Expense of estimated cost of improvement	_____		\$ _____
6	Legislative Body	Perform steps required under Majority Protest Act of 1931	_____		\$ _____
7	Legal Counsel	Prepare resolution of intention	_____		\$ _____
8	Legislative Body	Adopt resolution of intention and set hearing date	_____	_____	
9	Clerk	Publish, post and mail notices of resolution of intention	_____		\$ _____
10	Street Superintendent	Post area with notices of improvement	_____		\$ _____
11	Legal Counsel	Prepare resolution ordering improvement	_____		\$ _____
12	Legislative Body	Public hearing on resol- ution of intention to proceed	_____		
		Adopt resolution order- ing improvement	_____	_____	
		Adopt resolution deter- mining wage rates	_____	_____	

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SUMMARY OF INCIDENTAL COSTS AND
CHECK LIST FOR 1911 ACT IMPROVEMENTS (Continued)

Page 3 of 4

<u>Step</u>	<u>Usual Responsible Party or Official</u>	<u>P r o c e d u r e</u>	<u>Com- pletion Date</u>	<u>Resolution or Reference Number</u>	<u>C o s t</u>
13	Legal Counsel	Prepare specifications and bid form	_____	_____	\$ _____
14	Clerk	Prepare & publish notice inviting sealed bids	_____		\$ _____
15	Legislative Body	Open sealed bids	_____		
16	Street Superintendent	Audit and recap bids	_____		\$ _____
17	Legal Counsel	Prepare contract	_____		\$ _____
18	Street Superintendent	Accumulate incidental costs before delivery of contract	_____		
19	Legislative Body	Award contract	_____	_____	
Total incidental costs to date					\$ _____

			Cost	
			Actual (Memo)	Esti- mated
20	Street Superintendent	Inspect and accept work performed	\$ _____	\$ _____
21	Street Superintendent	Prepare assessment diagram and spread assessments to parcels	\$ _____	\$ _____
22	Clerk	Publish and mail to property owners Notice of Filing of Assess- ment Diagram	\$ _____	\$ _____
23	Legal Counsel	Prepare resolution con- firming proceedings and ordering warrant	\$ _____	\$ _____

SPECIAL ASSESSMENT ACCOUNTING

SUMMARY OF INCIDENTAL COSTS AND
CHECK LIST FOR 1911 ACT IMPROVEMENTS (Continued)
 Page 4 of 4

<u>Step</u>	<u>Usual Responsible Party or Official</u>	<u>P r o c e d u r e</u>	<u>Com- pletion Date</u>	<u>Resolution or Reference Number</u>	<u>C o s t</u>
		Total estimated incidental costs (Step 20-23)			\$ _____
		Add: Treasurer's estimated costs			\$ _____

		Total actual and estimated costs			\$ _____
		Add: _____% general overhead			\$ _____
		TOTAL INCIDENTAL COSTS			\$ _____
24	Legislative Body	Final public hearing on assessments	_____		
		Adopt resolution con- firming assessment and ordering warrant	_____	_____	
25	Street Superintendent	Deliver warrant to contractor	_____		
26	Contractor	Return warrant and list of collections	_____		

S U M M A R Y

Incidental Costs, Steps 1 through 23	\$ _____
Contract or Construction Costs	\$ _____

TOTAL COST OF IMPROVEMENT	\$ _____
* * * * *	

All the preceding costs are reimburseable. Whether or not all of them are always included in incidental expenses depends upon their materiality, feasibility of identification, convenience and local policy.

11.8 Assessment engineers' and attorneys' fees. When assessment engineers

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and attorneys are engaged to perform any of the actions mentioned, their fees are part of the total incidental costs. Consulting engineers may furnish supervision. Under these circumstances incidental costs may consist of professional fees, expenses of the legislative body, treasurer's estimates and general overhead.

11.9 Overhead includable. In addition to the professional fees, publication costs and other expenses for which there is evidence of payment, such as an invoice, incidental costs should include departmental salaries and wages in proportion to the time spent on improvement act activity, supplies directly chargeable to the project, and a proportionate share of departmental overhead costs. It is also proper to include an element for general overhead, i.e. those general and administrative costs essential to the existence and operation of the department, which are accounted for in other organizational units.

11.10 Departmental vs general overhead. The techniques by which these latter expenses may be determined are beyond the scope of this Report. Overhead allocation is one of the principal problems of cost accounting.* Determination of which costs are properly allocable and selection of appropriate bases for such allocation are highly subjective decisions, which can vary greatly from one situation to the next. An expense which part of departmental overhead in one governmental agency may be general overhead in another. This will depend upon whether the agency follows the policy of centralizing overhead-type costs, or attempts to spread them among the departments or activities served. Some overhead costs which, depending on local accounting policy, may be either departmental or general are:

- Employee benefits
- Supervisory and financial services
- Personnel services (Civil Service)
- Insurance
- Telephone exchange
- Maintenance of buildings
- Depreciation of buildings and equipment

Any cost allocations and computations used in developing the amounts entered on the "SUMMARY OF INCIDENTAL COSTS" should be retained as supporting evidence in case the amounts of incidental costs are ever questioned.

11.11 Special Assessment Investigation, Limitation and Majority Protest Act of 1931 (Sections 2800-3023, Streets and Highways Code). General law cities and counties, and other local agencies, except as exempted in sections 2803-2808, must proceed under the provisions of this Act. Costs of performing the required steps are allowable incidental expenses.

*For discussions of cost accounting, see:

International City Managers Association, Municipal Finance Administration, Chapter 7

State Controller, Accounting Standards and Procedures for Counties, Chapter 12

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MAJORITY PROTEST ACT OF 1931 EXPENSES

<u>Step</u>	<u>Usual Responsible Party or Official</u>	<u>P r o c e d u r e</u>	<u>Com- pletion Date</u>	<u>Resolution or Reference Number</u>	<u>C o s t</u>
1	Legislative Body	Determine nature, location and extent of proposed improvement or acquisition	_____	_____	
2	Legislative Body	Define boundaries of district to be assessed	_____		
3	Legislative Body	Determine costs to be borne from sources other than special assessments (If Summary proceedings taken)	_____	_____	\$ _____
4	Clerk	Mail postcards giving notice of findings to each person to whom land in proposed assessment district assessed	_____		\$ _____
5	Clerk	Compute percentage of owners demanding investigation (If owners of less than 15% of area demand investigation, the remaining steps are omitted)	_____		\$ _____
6	Street Superintendent	Prepare written report upon proposed improvement or acquisition	_____	_____	\$ _____
7	Clerk	Mail copies of notice of hearing	_____		\$ _____
8	Legislative Body	Conduct hearing	_____		\$ _____
9	Street Superintendent	Estimate cost of each addition to or omission from original report	_____		\$ _____
Total Costs					\$ _____

(Enter on line 6,
page 2 of SUMMARY
OF INCIDENTAL COSTS

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Article XIII, section 17, of the Constitution of the State of California makes it possible for any chartered city, or any chartered county, or any chartered city and county to follow the procedures outlined below as an alternative to proceeding under the Majority Protest Act of 1931.

ALTERNATIVE PROCEDURE FOR CHARTERED CITIES AND COUNTIES

<u>Step</u>	<u>Usual Responsible Party or Official</u>	<u>P r o c e d u r e</u>	<u>Com-pletion Date</u>	<u>Resolution or Reference Number</u>	<u>C o s t</u>
1	Legal Counsel	Prepare resolutions:			
		Setting a hearing to determine necessity	_____		\$ _____
		Approving construction plan	_____		\$ _____
		Approving map plan	_____		\$ _____
2	Legislative Body	Adopt above resolutions	_____	_____	
3	Clerk	Post and publish resolution setting hearing date to determine necessity	_____		\$ _____
4	Legal Counsel	Prepare resolution determining need for improvement	_____		\$ _____
5	Legislative Body	Public hearing to determine need and adopt resolution	_____	_____	
		Total Cost			\$ _____

(Enter on line 6,
page 2 of SUMMARY
OF INCIDENTAL COSTS)

* * * * *

11.12 Treasurer's estimate of incidental costs. Treasurer's costs (See SUMMARY, Step 23) must be based on estimated future unit costs and volume of transactions.

A general premise is that the treasurer's estimate of incidental expenses shall include the total annual cost of issuing and serv-

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icing improvement act bonds: salaries, expense items (statements, envelopes, etc.); cost of preparation of statements; cost of preparing register sheets and bonds (prorata share of register sheets and bonds if bought in large quantities, estimated cost of register sheets and bonds if printed by issue); postage; retirement or pension costs; proration of administrative costs; and a percentage of the total for local agency general overhead. When the total of the foregoing is divided by the number of bonds entered in the street bond registers, the result becomes the unit cost for one bond for one year. If bonds and register sheets are prepared by a consulting or assessment engineer, his fees are included.

Since 1911 Improvement Act bonds can be issued with terms up to 15 years, it is necessary that a determination be made as to the average number of years bonds remain unpaid in order to determine the number of years they will probably need to be serviced. When such determination is made, the cost for one year is multiplied by the average number of years that bonds remain unpaid, which gives the cost for servicing and collecting over the average life of the bonds.

Also, since incidental expenses must be filed long before the assessment is spread and before the number of assessments that will go to bond is known, it is incumbent on the treasurer to arrive, on the basis of past experience, at an average percentage of assessments that will go to bond. The number of assessments actually going to bond should be reviewed from time to time to ascertain if the percentage should be changed. (The experience of one large bond division has been that about 65% of assessments go to bond, that the average life of a bond is 5½ years and that about half as much in bonds are retired in any given year as are issued). Where the agency has had no experience with these bond issues it is recommended that the nearest agency having them be contacted. When such average percentage has been determined, it is applied to the number of parcels in the assessment district, and the result then multiplied by the cost arrived at for the number of years that the bonds will remain unpaid.

I. TREASURER'S ESTIMATE OF INCIDENTAL COSTS

- (1) Number of assessments _____
- (2) Estimated number of bonds to be issued (____% of 1) _____
- (3) Estimated cost to _____
(issue) one bond (If not
(issue & service) previously computed, see Section II for suggested method) \$ _____
- (4) Treasurer's estimate of incidental costs (2 x 3) \$ _____

(Enter in Item 23,
page 4 of SUMMARY
OF INCIDENTAL COSTS)

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II. COST OF ISSUING AND SERVICING ONE BOND

This computation should be made annually, based on historical data for a prior year or other time period. If there has been no past experience, estimates must be used.

A. Cost to Issue One Bond

Preparation of register sheets and bond forms:

- (1) Payroll allocation \$ _____
- (2) Employee benefits (____% of 1) \$ _____

Other expense:

- (3) Register sheets (____ x _____)
Ave. cost No. used \$ _____
- (4) Bond forms (____ x _____)
Ave. cost No. used \$ _____

Purchased services:

- (5) Outside service bureau \$ _____
- (6) Data processing \$ _____
- (7) Total (1 through 6)..... \$ _____
- (8) Applied departmental overhead (____% of 7) \$ _____
- (9) Total (7 + 8)..... \$ _____
- (10) Number of bonds issued during period for which
above costs are accumulated _____
- (11) Average cost of issuing one bond (9 ÷ 10) \$ _____

B. Cost To Service One Bond

Semiannual preparation and mailing of notice
of amounts due from property owners:

- (12) Payroll allocation \$ _____
- (13) Employee benefits (____% of 12) % _____
- (14) Postage, envelopes and statements \$ _____
- (15) Other \$ _____

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Purchased services:

(16)	Outside service bureau	\$ _____
(17)	Data processing	\$ _____
(18)	Total (12 through 17).....	\$ _____
(19)	Applied departmental overhead (____% of 18)	\$ _____
(20)	Total (18 + 19).....	\$ _____
(21)	Average number of bonds outstanding	_____
(22)	Annual cost of servicing one bond ($20 \div 21$)	\$ _____
(23)	Average life of bonds	_____
(24)	Estimated cost of servicing one bond over its life (22×23)	\$ _____
<hr/>		
(25)	Estimated cost to issue and service one bond ($11 + 24$) ..	\$ _____

B. Other Improvement Acts

- 11.13 Incidental expenses allowed in other Acts Other improvement Acts mention incidental expenses, but do not itemize them in the detail found in the 1911 Improvement Act. Generally, the allowable incidental expenses are determined by the improvement act used. In only one bonding act, The Improvement Bond Act of 1915, is a possible increase in incidental expenses permitted by the procedural act.

The chart below and subsequent notes indicate the bonding acts which may be used with each of the principal improvement acts and the extent to which incidental expenses are recoverable. For example, the chart shows that the Street Opening Act of 1903 may be used with either the Improvement Bond Act of 1915 or the Street Opening Bond Act of 1911. If the 1915 Act is used, footnote 1, Estimated cost of issuing bonds may be included in the assessment, applies. The letter "a" indicates a subsequent footnote paragraph containing pertinent comments and Code quotations applicable to both combinations.

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Improvement Acts	Bonding Acts Which May Be Used			
	Improvement Act of 1911	Improvement Bond Act of 1915	Street Opening Bond Act of 1911	Street Improvement Act of 1913
Street Opening Act of 1903		a.1	a	
Improvement Act of 1911	b.1.2	b.1.2		
Municipal Improvement Act of 1913	c	c.1		
Street Improvement Act of 1913*				d
Vehicle Parking Act of 1943	e.1.3			

- 1 Estimated cost of issuing bonds may be included in assessment
- 2 Estimated cost of servicing bonds may be included
- 3 Parking meter revenues pledged for payment of bonds and/or refunds

a. Street Opening Act of 1903

Section 4273(d) provides that total expense to be assessed shall include the expense of making the assessment, and section 4274 states that it shall also include:

"(a) All cost and expense incurred in carrying out the investigations and reports required by the provisions of the 'Special Assessment Investigation Limitation and Majority Protest Act of 1931'.

(b) All expenses necessarily incurred by the city, in connection with the proposed improvement, for the publication of ordinances, posting and publication of notices, for maps, diagrams, plans, surveys, searches and certificates of title to the property to be taken, and all other matters incident thereto. "

The Improvement Bond Act of 1915, with which the Street Opening Act of 1903 may be used, in section 8624 permits cost of printing bonds as an incidental expense.

The Street Opening Bond Act of 1911 does not mention incidental expenses.

b. Improvement Act of 1911

Allowable incidental expenses are those discussed in Section A of this Part, whether the bonds are issued under the Improvement Act of 1911 or the Improvement Bond Act of 1915.

*Repealed by Statutes of 1963, Chapter 346

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c. Municipal Improvement Act of 1913

Section 10204 states:

"The report of the person or board to whom the improvement is referred by the legislative body shall contain:

- - - - -

(c) An estimate of the cost of the improvement and of the cost of lands, rights of way, easements, and incidental expenses in connection with the improvement."

If used with the Improvement Bond Act of 1915, cost of printing bonds may be included in incidental expenses.

Section 10204.1 prohibits inclusion of expenses of compliance with the Subdivision Map Act (Commencing at section 11500, Business and Professions Code), but does permit:

" (1) The costs and expenses of modifying any tentative or final map prepared pursuant to the Subdivision Map Act for use as the map of the assessment district or diagram; and

(2) Any surveying or engineering expenses incurred for preparation of the plans and specifications of any improvement to be constructed under this division. "

The bond provisions of the Improvement Act of 1911 make no mention of incidental expenses.

d. Street Improvement Act of 1913 (Repealed, 1963)

Section 7230 of this Act provides that incidental expenses:

" (a) Shall include the necessary expenses and disbursements of the commission, the cost of making the assessment, and all expenses necessarily incurred by the city in connection with the proposed improvement for maps, diagrams, plans, surveys and other matters incident to the improvement.

(b) May also include all cost and expense incurred in carrying out the investigations and reports required by the 'Special Assessment Investigation, Limitation and Majority Protest Act of 1931'. "

e. Vehicle Parking Act of 1943

Section 31624 states:

"The total cost and expense include:

(a) The amounts awarded the defendants in the condemnation action and their costs.

(b) Any amounts fixed by contract for the purchase of any land or rights of way to be acquired.

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(c) All costs and expenses of plaintiff in the condemnation action, attorney's fees, fees of expert witnesses, service of process, and other costs or expenses.

(d) The expenses of making the diagram and assessment.

(e) The estimated expense of issuing and selling bonds.

(f) The estimated costs and expenses of the proposed improvement.

(g) All expenses of the proceedings pursuant to this part, including engineer's and attorney's fees, title searches, certificates of title, publication and posting of ordinances or notices, maps, plans, the estimated expenses of the proceedings thereafter to be taken, and all expenses of the proceedings taken under the 'Special Assessment Investigation, Limitation and Majority Protest Act of 1931'. "

11.14 Application of Guide (Part 2 - Section A) to other proceedings. The "Guide" developed for treasurer's estimates in the section dealing with the Improvement Act of 1911 may be used as a master guide for any proceeding where treasurer's estimates of cost are allowable as incidental expenses. If only the cost of issuing bonds can be included, the cost to be entered on Line I-3 is taken from Line II-11. Of course, if neither the estimated cost of issuing or servicing bonds is allowable, the Guide is not used.

Part 3 - Accounting and Reporting

11.15 Discussion limited. The discussion in this Part deals only with recommended general ledger accounts and financial report format. It is understood that such accounts and report items are supported by whatever subsidiary records are required by law or principles of fiscal control. Assessment schedules, bond registers and other supplemental records are not included on the premise that suitable forms are already in use, or are readily available from other sources.

A. Incidental Expenses

11.16 Accounting alternatives. Governmental agencies frequently incur expenses on behalf of the improvement, to be reimbursed from assessment collections or bond proceeds. There are two alternatives to the accounting problem:

Use of an incidental expense revolving fund

Use of the General Fund revenue and expenditure accounts

11.17 Revolving fund. By isolating incidental expense and reimbursement transactions in a revolving fund, a better control is maintained and the status of operations is more readily apparent. Since such a fund is free from the normal appropriation controls, advances for incidental expenses may be charged directly to Accounts Receivable without having to be channelled through Expenditures.

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All services and supplies purchased outside the governmental agency are paid directly from the Revolving Fund. Services performed by units of the agency are initially recorded in those units and then transferred to the Revolving Fund.

Typical entries for this accounting plan follow:

Event	General Fund	Incidental Expense Revolving Fund
Establishment of Revolving Fund by advance from General Fund	Advances to Revolving Fund ¹ 10,000 Cash 10,000	Cash 10,000 Fund balance 10,000
Incidental expenses paid from Revolving Fund		A/c receivable- Assmt Dist #1 1,000 Cash 1,000
Incidental expenses incurred in General Fund	Expenditures 750 Cash 750	
Above expenses transferred to Revolving Fund	Cash 750 Expenditures ² 750	A/c receivable- Assmt Dist #1 750 Cash 750
Estimated future expenses by treasurer	Due from Revolving Fund 2,000 Expenditures ³ 2,000	A/c receivable- Assmt Dist #1 2,000 Due General Fund 2,000
Expenses for proceedings never completed transferred to General Fund	Expenditures 200 Cash 200	Cash 200 A/c receivable- Assmt Dist #2 200
Reimbursement for incidental expenses		Cash 3,750 A/c receivable Assmt Dist #1 3,750
Transfer of amounts due General Fund	Cash 2,000 Due from Revolving Fund 2,000	Due General Fund 2,000 Cash 2,000

- 1 The accompanying entry to segregate the fund balance for this amount will be governed by the method of financing and the rules applicable to the particular agency.
- 2 Some agencies might credit this amount to Revenues, depending upon their policy with respect to expenditure adjustments.
- 3 Same type comment as (2). Some agencies might prefer the more accurate method of crediting a reserve, to be later reduced as expenditures were made.

SPECIAL ASSESSMENT ACCOUNTING

In an All Funds Balance Sheet, account balances of the Incidental Expense Revolving Fund are included in the Working Capital and Revolving Funds column.

- 11.18 Accounting for incidental expenses within the General Fund. Those agencies not utilizing a revolving fund in accounting for incidental expense may prefer to accomplish the accounting through normal budgetary processes. Suggested requirements in such cases are outlined as follows:

Expenditures (Incidental Expense Advances)

- (a) Include a General Fund account in the agency budget, appropriating the total estimated expenditures for this purpose for the fiscal year.
- (b) In making the appropriation, make certain that costs are not duplicated in other departmental budgets.
- (c) Establish some type of accounting procedure which will insure that charges to the account are complete and can be identified by assessment district. (Refer to Part 2 - Incidental Expenses, for suggested reimbursable charges)

Revenue (Incidental Expense Reimbursements)

- (a) Include a General Fund account in the agency budget, with estimated revenue for the fiscal year consisting of all reimbursements anticipated to be realized during that period.
- (b) Identify credits to the account by assessment district.

The ultimate result of the transactions described in this section is an accumulation of General Fund surplus due to the fact that reimbursed expenses pertaining to the treasurer's servicing of the bonds will not yet have been incurred. The legislative body is thus obligated to provide future appropriations for the treasurer in amounts sufficient to provide servicing of the bonds outstanding.

B. General Accounting

- 11.19 Guidelines. The accounting recommendations for the various combinations of the two principal improvement Acts with the principal bonding Acts adhere to these underlying guides:

- (1) Assessments to be collected in the future, and bond principal and interest to be paid in the future, should be recorded in the accounts.
- (2) Recognition of current liabilities for bond principal and interest should follow legal requirements.

*Some agencies might credit these amounts against expenditures, depending upon accounting policy.

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- (3) If the local agency has no liability until assessments are collected, uncollected assessments and unpaid bonds and interest should not be included in financial statements.
- (4) The debt service function and the presentation of future liabilities should be accounted for within the same fund. The construction fund, if any, should be separate. However, in local financial reports all three phases may be combined and presented in one Special Assessment Fund.

11.20 Proceedings under 1911 Improvement Act. As previously stated, 1911 Act improvements may be financed with either 1911 Act or 1915 Act bonds. The only difference caused by use of one or the other of the two bonding Acts is the point at which liabilities become current. If 1911 Act bonds are used, the local agency has no liability to the bondholder until the assessment represented by that particular bond has been collected. If 1915 Act bonds are used, principal and interest are payable when they mature.

There will be no construction fund resulting from the collection of assessments or sale of bonds under a 1911 Act improvement, since the work has already been completed prior to preparation of the assessment. However, when the street superintendent collects the assessments, amounts collected are placed in a trust fund.

Typical entries under each bonding Act follow:

Event	1911 Act bonds	1915 Act bonds
At the expiration of the 30-day period, unpaid assessments are recorded	*Assmts to be collected 105,000 *Bonds eligible to be sold 105,000	Assts receivable 105,000 Bonds eligible to be sold 105,000
Bonds are sold, or are delivered directly to the contractor, and future interest is recorded	*Bonds eligible to be sold 105,000 *Assmts to be collected 45,000 *Bonds payable by assessee 105,000 *Interest payable by assessee 45,000	Bonds eligible to be sold 105,000 Assmts receivable 45,000 Bonds payable-deferred 105,000 Interest payable-deferred 45,000
Assessments are collected	Cash 9,100 Bonds payable 6,500 Interest payable 2,600 *Bonds payable by assessee 6,500 *Interest payable by assessee 2,600 *Assmts to be collected 9,100	Cash 9,100 Assmts receivable 9,100

*Accounts the balances of which will not appear in the financial statements.

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Event	1911 Act bonds	1915 Act bonds
Delinquent assessments are recorded		Assmts receivable-delinquent 900 Assmts receivable 900
An advance is received from the General Fund		Cash 900 Due General Fund 900
Bonds and interest mature		Bonds payable-deferred 7,000 Interest payable-deferred 3,000 Matured bonds & interest payable 10,000
Except for one \$500 bond and \$100 in coupons, all matured bonds and coupons are presented and paid	Bonds payable 6,000 Interest payable 2,500 Cash 8,500	Matured bonds & interest payable 9,400 Cash 9,400

The following entries illustrate the accounting for certain special situations. Reference should be made to the Streets and Highways Code for the rules governing computation of interest, penalties and premiums.*

Reinstatement of 1911 Act bond: <u>Payment</u> Principal \$30 Interest 15 Penalties 1 \$46	Cash 46 Bonds payable 30 Interest payable 15 Penalties payable 1 *Bonds payable by assessee 30 *Interest payable by assessee 15 *Assmts to be collected 45	
Delinquent installment for 1915 Act Bonds is paid (Property has been "sold" to State) <u>Payment</u> Principal \$70 Interest 30 Delinquency penalty 6 Redemption penalty 3 \$109		Cash 109 Assmts receivable-delinquent 100 Due General Fund 6 Fund balance 3

*See also Eugene K. Sturgis, Handbook for Special Assessment Bonds, June, 1960

SPECIAL ASSESSMENT ACCOUNTING

Event	1911 Act bonds	1915 Act bonds
A 1911 Act assessment is paid in full. There are no delinquencies	Cash 336 Bonds payable 300 Interest payable 20 Premiums payable 16 *Bonds payable 300 by assessee *Interest payable 20 by assessee *Assmts to be collected 320	
The bond represented by the above assessment is called and paid	Bonds payable 300 Interest payable 20 Premiums payable 16 Cash 336	

To illustrate entries for prepayment of assessments and the call of bonds under the 1915 Act, assume two property owners, each of which has an identical unpaid assessment at October 31, as follows:

Principal	\$275
Interest	90
	<u>\$365</u>

Both owners pay their assessments in full. There are no delinquencies		Cash 730
<u>Payments</u>		Assmts receivable 730
Principal \$550		
Interest** <u>180</u>		
\$730		

On January 2 the Treasurer calls a 6% \$500 bond which will mature two years hence. Interest for the six months just ended, now payable, has not been accrued in the accounts. Publication and mailing costs were \$5.

<u>Payment to bondholder</u>		Interest payable-deferred 75
Principal \$500		Bonds payable-deferred 500
Semi-annual interest 15		Cash 545
Premium <u>25</u>		Due property owners* 30
\$540		

*The amount due the property owners is the interest savings on the bond actually retired, \$60, less costs of publication and mailing notices, \$5, less the premium, \$25.

**In 1963 sections 8760-8768 were added to the Streets and Highways Code, providing an alternative method under which the auditor and treasurer

(Continued on last page)

SPECIAL ASSESSMENT ACCOUNTING

After the preceeding transactions the balance sheets in each of the two situations would appear as follows:

Special Assessment Fund
1911 Act Bonds
Balance Sheet
Date

ASSETS

Cash	<u>\$982</u>
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LIABILITIES AND FUND BALANCE

Interest payable	\$135
Bonds payable	830
Premiums payable	<u>17</u>
 Total	 <u>\$982</u>

The future assessment installment liability of property owners for amounts payable to bondholders is \$98,170 for principal and \$42,365 for interest.

* * * * *

Special Assessment Fund
1915 Act Bonds
Balance Sheet
Date

ASSETS

Cash	\$ 894
Assessments receivable-delinquent	800
Assessments receivable	<u>139,270</u>
 Total	 <u>\$140,964</u>

LIABILITIES AND FUND BALANCE

Due General Fund	\$ 906
Due property owners	30
Matured bonds and interest payable	600
Interest payable-deferred	41,925
Bonds payable-deferred	97,500
Fund balance	<u>3</u>
 Total	 <u>\$140,964</u>

SPECIAL ASSESSMENT ACCOUNTING

- 11.21 Proceedings under the Municipal Improvement Act of 1913. Like the 1911 Act, the 1913 Act may be used with either 1911 or 1915 Act bonds. The accounting within the debt service fund is governed by the bonding Act used, and would not vary from that previously illustrated because the proceedings were under the 1913, rather than the '911, Act.

However, because the assessment is made prior to the beginning of the improvement, a bond fund must be established before the debt service fund is opened. This causes a small modification in the opening entry in the debt service fund.

Another possibility stemming from the fact that the assessment precedes the work is that the amount in the bond fund, a direct result of preliminary estimates, may be more or less than the final cost of the work. If it is more, the excess may be (1) retained for maintenance of the improvement, or (2) refunded or credited to the property owners, as directed by the legislative body. If, on the other hand, it is less, the legislative body may (1) pay the deficit out of the General Fund, or (2) order a supplemental assessment.

Entries differing from those previously given are shown below:

Event	Bond Fund	Debt Service Fund
The assessment is made	Assmts re- ceivable 120,000 Appropriations 120,000	
Collections are received during the 30-day period	Cash 15,000 Assmts re- ceivable 15,000	
Bonds are sold	Cash 105,000 Assmts re- ceivable 105,000	Assmts re- ceivable 150,000 Bonds pay- able-deferred 105,000 Interest pay- able-deferred 45,000
The contract is let	Encumbrances 120,000 Reserve for encumbrances 120,000	(Thereafter the accounting follows the pattern previously indicated for the bonding Act used)
A progress payment is made	Reserve for encumbrances 40,000 Encumbrances 40,000 Expenditures 40,000 Cash 40,000	

SPECIAL ASSESSMENT BONDS

The bond and debt service funds may be combined for balance sheet presentation. The following is illustrative for a 1913 Act improvement financed by 1915 Act bonds.

Special Assessment Fund
Balance Sheet
Date

ASSETS

Current:		
Cash-construction	\$110,000	
Cash-bonds and interest	894	
Assessments receivable-delinquent	<u>800</u>	\$111,694
Deferred:		
Assessments receivable-deferred		<u>139,270</u>
Total		<u>\$250,964</u>

LIABILITIES AND FUND BALANCE

Current:			
Due General Fund	\$	906	
Due property owners		30	
Matured bonds and interest payable		<u>600</u>	\$ 1,536
Deferred:			
Interest payable-deferred	\$	41,925	
Bonds payable-deferred		<u>97,500</u>	<u>139,425</u>
Total liabilities			\$140,961
Reserve for encumbrances			110,000
Unencumbered appropriations:			
Appropriations		\$150,000	
Less: Expenditures	\$	40,000	
Encumbrances		<u>110,000</u>	<u>150,000</u> -0-
Fund balance			<u>3</u>
Total			<u>\$250,964</u>

**** (Continued from section 20)**

determine which bond(s) may be called prior to collecting from the property owner. The bond selected is the lowest numbered bond of annual series midway to the end of the bond term. Interest is then collected only on the amount to be used for the call (in contrast to the above illustrated method where all remaining interest is collected). A 5% premium is collected on the principal balance. If the principal collected is in excess of the amount needed for the bond called, interest is collected on the excess for an additional six months. Bonds subsequently called are selected from the lowest number of each annual series before and after the series from which the first bond was selected.

SPECIAL ASSESSMENT ACCOUNTING

- 11.22 Bond discount. If, under 1913 Act proceedings, bonds are sold at at a discount, the entire amount of the discount should be charged as a project cost at the time of sale. If proceedings are under the 1911 Act the problem does not arise, since the governmental agency neither receives nor accounts for bond sale proceeds.